Telecommunications

MOF Inc Set To Exit DNB; DNB's Operating Losses To Pressure Shareholders' Bottom Line

MARKET WEIGHT
(Maintained)

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Highlights

- MOF Inc has exercised its put options in relation to its existing 41.67% stake in DNB, requiring CelcomDigi, Maxis and YTL to each fork out RM327.9m to honour the shareholders' agreement.
- We expect DNB to operate at a loss (2025 estimated loss is RM1b) in the near term. Our sensitivity analysis suggests -10% and -12% impact to 2026 earnings forecasts for CelcomDigi and Maxis respectively. Naturally, we expect deep cost-cutting measures to reduce the operational losses (including refinancing of the existing ~RM3b debt).
- The sector trades at 8x EV/EBITDA, +2SD above the mean. Maintain MARKET WEIGHT. Top picks: CelcomDigi, TIME and Axiata.

Analysis

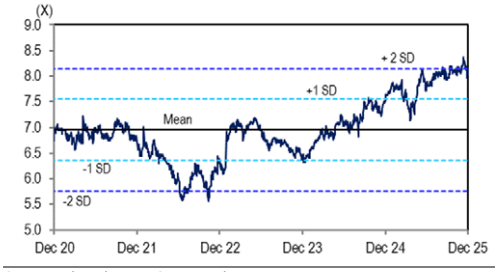
- **MOF Inc exercises put option for its 41.67% stake in DNB.** In a recent Bursa announcement by CelcomDigi and Maxis, the Ministry of Finance Inc (MOF Inc) has exercised its put options in relations to its existing 41.67% stake in Digital Nasional (DNB).
- **CelcomDigi, Maxis and YTL to fork out RM327.9m each.** The put option notice requires the three investor shareholders, CelcomDigi, Maxis and YTL Communications (YTL) to purchase the ordinary shares in DNB owned by MoF Inc and take over the MoF Inc loan together with accrued interest. The trio is required to pay RM327.9m per stakeholder within the next two months.
- **Sufficient cash to fund the acquisition.** We believe CelcomDigi and Maxis have comfortable headroom to acquire the stake, with them previously highlighting that they will honour the shareholders' agreement should MOF Inc exercise its put option.
- **Around -10% and -12% earnings impact to telcos.** We expect DNB to operate at a loss in the foreseeable future – with an estimated net loss of RM1b in 2025, narrowing to RM431m in 2027 (see overleaf table and assumptions). Impact to CelcomDigi and Maxis' 2026 net profit forecasts is estimated at 10% and 12% respectively.
- **Cost-cutting measures.** We expect DNB – under the joint management of CelcomDigi, Maxis and YTL to undertake deep cost cut measures across all segments of the business. Under the original budget of DNB, a total of RM1b is to be spent on site rental agreement with EDOTCO, Digi, Celcom, Maxis and U Mobile. Together with the refinancing of its estimated RM3b debt, a lower opex is expected in 2026-27. Overall corporate cost of RM4b in the original budget will also likely be under careful consideration.

Sector Picks

Company	Rec	Target Price (RM)	EV/EBITDA (x)	Div Yield (%)
CelcomDigi	BUY	4.20	9.8	3.2
TIME	BUY	6.00	11.0	5.6
Axiata	BUY	3.00	8.5	3.8

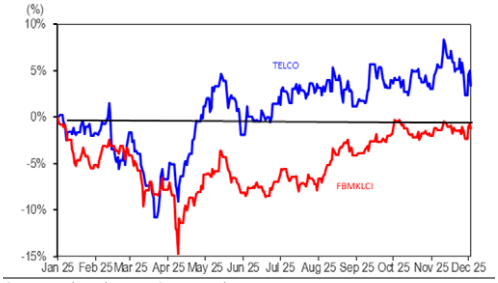
Source: UOB Kay Hian

Sector's 12-Month EV/EBITDA



Source: Bloomberg, UOB Kay Hian

Sector's Ytd Share Price Performance



Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Price 3 Dec 25 (RM)	Target Price (RM)	Market Cap (RMm)	PE 2025F (x)	PE 2026F (x)	EV/EBITDA 2025F (x)	EV/EBITDA 2026F (x)	Dividend Yield 2025F (%)	Dividend Yield 2026F (%)
Axiata Group	AXIATA MK	BUY	2.56	3.00	23,515	55.0	39.5	8.4	7.6	3.9	3.9
CelcomDigi	CDB MK	BUY	3.32	4.20	38,949	22.3	18.9	9.1	8.8	4.5	5.3
Maxis	MAXIS MK	HOLD	3.79	4.20	29,695	19.8	18.5	8.9	8.2	4.6	5.0
Telekom Malaysia	T MK	HOLD	7.10	7.00	29,282	16.5	15.8	6.3	5.9	4.2	4.4
TIME dotCom	TDC MK	BUY	5.44	6.00	10,058	20.2	18.5	13.1	13.0	8.9	8.2

Source: Bloomberg, UOB Kay Hian

- **CelcomDigi, Maxis and YTL to hold 33.33% stake each.** Following the completion of the exercise, MOF Inc will cease to be an investor shareholder in DNB, with the remaining investor shareholders taking up equal portions of MOF Inc's shares. This will lead to the trio owning an effective shareholding of 33.33% in DNB from an existing 19.44% stake each.

10-12% Earnings Impact To CelcomDigi And Maxis After Acquisition Of DNB

	DNB's P&L Projections				
	2025F	2026F	2027F	2028F	Assumptions
Revenue	1,040	1,296	1,469	1,728	2026-27 revenue is higher as coverage increases and telcos are required to pay closer to the minimum of RM288m wholesale agreement fee that was originally agreed upon
OPEX	(1,650)	(1,450)	(1,450)	(1,450)	2026-28 assumes 50% reduction in corporate cost (estimated at RM400m annually)
EBITDA	(610)	(154)	19	278	
Depreciation	(300)	(300)	(300)	(300)	Current capex is approximately RM3b, excluding Ericsson equipment of RM4b. We do see the need for capex to rise in 2026 to increase COPA (90% currently) and support densification (due to smaller spectrum allocation now, as UMobile has been given 50% of 5G spectrum)
Interest cost	(180)	(150)	(150)	(150)	Assume debt of RM3b and 6% interest cost, 2026 assumes 5% interest cost as a result of refinancing activities
Pretax loss	(1,090)	(604)	(431)	(172)	
		2026F	2027F		
Impact to CelcomDigi		-10%	-6%		
Impact to Maxis		-12%	-8%		

Source: UOB Kay Hian

Shareholding Structure In DNB

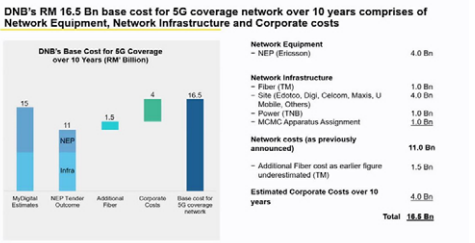
	Pre-put option exercise			Post-put option exercise		
Name of DNB Shareholder	Issued Share Capital Held (RM)	Total Shareholder Advance (RM)	Existing Shareholding (%)	Issued Share Capital Held (RM)	Total Shareholder Advance (RM)	Post-exercise Shareholding (%)
MOF Inc.	500,100,002	250,202,928	41.67	0	0	0
YTL	133,333	349,900,000	19.44	166,833,334	433,300,976	33.33
CelcomDigi	133,333	349,900,000	19.44	166,833,334	433,300,976	33.33
Maxis	133,333	349,900,000	19.44	166,833,334	433,300,976	33.33
Total	500,500,001	1,299,902,928	100.00	500,500,001	1,299,902,928	100.00

Source: CelcomDigi, Maxis, UOB Kay Hian

Valuation/Recommendation

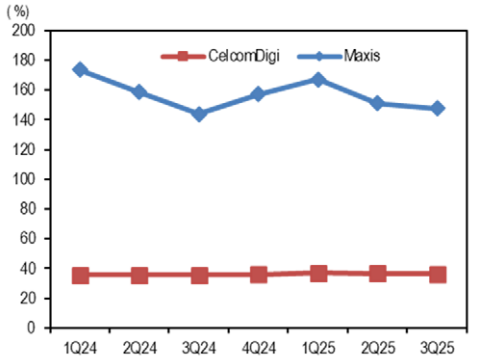
- **Maintain MARKET WEIGHT.** We expect the sector to exhibit stable operating parameters in the near term. Good cost discipline and relatively benign capex intensity will drive the sector to deliver an attractive average dividend yield of 5%. The sector has outperformed the FBMKLCI by 8% in 2H25, supported by defensive buying for Axiata, TM and Maxis. The sector currently trades at 8x 2025 EV/EBITDA (+2SD). We await a better entry level for defensive yields. Top picks: Axiata, CelcomDigi and TIME.
- **Key risks to our investment thesis** include: a) earnings erosion for fixed-line operators due to stiff competition, b) lower-than-expected synergistic savings from the CelcomDigi merger exercise, and c) economic downturn which will lead to shrinking customer wallets and service revenue for the sector.
- **Axiata (AXIATA MK/BUY/Target: RM3.00).** Against a backdrop of balance sheet deleveraging and operating cash flow discipline, we expect management to pay out a DPS of 10 sen for 2025. This translates to a dividend yield of 4%. Key re-rating catalysts include: a) stronger opco performance in the upcoming quarters; b) narrowed Link Net losses; and c) the listing of EDOTCO, which will allow for share price discovery.

DNB's RM16.5b Base Cost



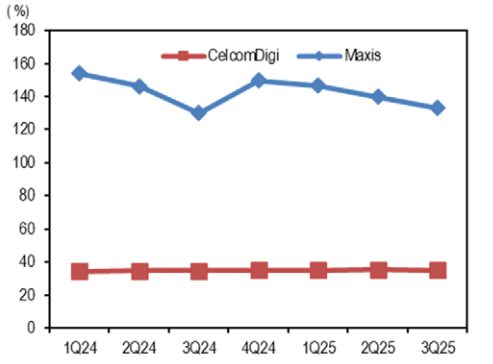
Source: Digital Nasional

Gross Gearing Ratio



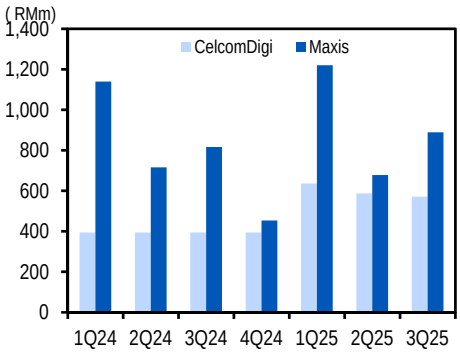
Source: Respective companies

Net Gearing Ratio



Source: Respective companies

Cash Position



Source: Respective companies

- **CelcomDigi (CDB MK/BUY/Target: RM4.20).** We expect merger synergies to yield projected cost savings of RM800m annually beyond 2027 (steady state), as CelcomDigi has already completed >90% of its network integration exercise in 2025. Key re-rating catalysts include the monetisation of tower assets (selling to EDOTCO) and paying out special dividends in the near term.
- **TIME dotCom (TDC MK/BUY/Target: RM6.00)** offers a commendable three-year earnings CAGR of 11% for 2024-27, with an attractive dividend yield of 9%. TIME targets to expand by an additional 250,000-300,000 home passes p.a.. This is supported by its steady penetration rate in both greenfield and brownfield areas over the course of 2-3 years. The group reiterated its commitment in its balance sheet optimisation exercise and highlighted that debt (to a certain extent) may be a more optimal capital structure going forward.

Sector Catalyst/Risk

- **Key events to look out for in 1H26** include: a) EDOTCO benefitting from U Mobile's capex spent to roll out the second 5G network; b) gradual network expansion for TM and TIME – with single dwelling offerings being the main focus; c) completion of MOF Inc's exit from DNB, d) marginal EBITDA margin compression due to the expanded SST; and e) potential monetisation of Axiata's 63% equity stake in EDOTCO.

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